

GUIDE TO DEBT RELIEF ORDERS (DRO)

Why choose a Debt Relief Order?

A Debt Relief Order lends itself typically to those individuals who have limited assets, who are not homeowners and those who obtain a small overall income. A DRO is seen as a more affordable alternative to bankruptcy. The DRO allows you a period of 12 months, where in most cases, your creditors are prevented from retrieving the debts. Furthermore, once the period has ended, the debts are disregarded.

DRO Application Process

It is not possible to simply submit an application to the Insolvency Service. You will need to seek out an 'approved intermediary' in the initial act. The approved intermediary will then hear your case and make a decision whether you qualify for a DRO or if it is the best scenario for you. The approved intermediary will then submit the application.

The applications are looked at by a 'Official Receiver' (a government official), who will handle the case without a court hearing. There is a unique online system where the applications are submitted in order to reach the Official Receivers office.

Qualifications for a Debt Relief Order

- Inability to pay off your debts
- Not have a vehicle worth in excess of £1000
- Once you have spent on your normal household expenses each month, you must have under £50 remaining for that month.
- Any assets totaled must be below £300.
- A maximum of £15000 in total debts when the official receiver approves your application.
- Not been approved for the order in the previous six years.
- You must reside or be running a business in England or Wales for the most recent three years.



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Debt Relief Order Debts included:

Priority Debts Include: Council Tax, Gas, Electric, Rent, Business Rates and Community Charge Arrears, Income Tax, Vat, National Insurance, Phone Bill Arrears.

Credit Debts Include: Credit and Store Cards, Loans, Catalogues, Benefit Overpayments, Water Arrears, Bank Overdrafts, Bank Loans, Family Debts, Personal Debts, Hire-Purchase Agreement Arrears, Other Hire Agreements, Conditional-Sale Agreement Arrears, Home-Collected Credit, Parking Penalty Charges and Mortgage Shortfalls.

Small Business Debts Include: Money owed to employees, suppliers and customers (Customers who have made a payment for something they have not yet received).

DRO Debts Excluded: Student Loans, Budgeting Loans, Crisis Loans, Magistrates' Court Fines, Maintenance, CSA Arrears, CMS Arrears, Debts against you for Personal Injury Claims, any outstanding fees for a 'criminal confiscation order'.

These debts are ones that you still are accountable to pay for in total. They must still be listed in the submitted application, but they are not included within the £15000 limit. Payments will need to be made to start relieving these debts and they are to be shown amongst your outgoings.

Do I need to include my hire purchase or conditional-sale agreements?

- Only if you are in arrears.
- Following this, future installments should be withdrawn.

What if I am not in arrears?

- You may leave out the agreement from the debt relief order.
- Expenditure on these payments in the future will only be permitted if the good is essential for basic domestic needs.
- The good if not essential but you want to keep it, will need to be paid by a third party member.

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What if the item is a vehicle on hire purchase or conditional-sale agreement?

If the vehicle is valued in excess of £1000, the debt will need to be portrayed in the order. The only other way to keep the vehicle is for a third party member to undertake the payment plan.

Is it a risk if my debts total is just short of £15000?

Well the creditors are entitled to continue adding interest or charges on top of the outstanding debts until the DRO has officially been approved. So in this case, having debts just short of £15000 can mean even once you have submitted your application it is possible your debts could overcome the limit before it has been fully approved. In this instance, your DRO will therefore be declined and any fees you have used in the process will not be refunded.

How do I avoid this issue?

There are a variety of different routes you can take to try and navigate around the issue. Firstly, it is important you look into the debts you have acquired and see where the extra interest is specifically coming from. Store cards or credit cards with high interest rates may be the issue. Secondly, you could attempt to convince your creditors to withdraw placing interest on top of the existing debt through the sample letter, 'Ask creditors to hold action on your account whilst you apply for a DRO'. This should only take place once you have almost completed your application proposal for the DRO. Thirdly, it may be possible to ask a charity for assistance with the charge to accelerate the progression. Finally, work out an approach to saving up for the charge and when exactly would be the best time to submit the application ahead of the debts becoming at risk of outgrowing the £15000 limit.

Furthermore, think about the possibility of making payments to keep the debts under the limit in advance of the DRO. Think about the possibility of someone contributing in the meantime with the payments. Think about the prospect of applying to the courts for a time order and increasing the time you have to relieve the debts.

What does not count toward the £300 worth of assets?

- Cutlery
- Crockery
- Televisions
- Beds
- Furniture

What is included as an asset?

- Vehicles worth more than £1000
- Premium Bonds
- Savings
- Antiques
- Valuable Collections
- Luxury Items
- Shares

How does the value of the asset come about?

The value is based upon the resale value potential of the item. Unless it is brand new, the initial price you paid for the item does not take any stock.

Are there any steps I need to take before I submit an application?

There are some avenues you can explore to ensure preparation for a DRO. You could prepare a budget to give yourself a clear understanding of your income and expenditure. Make a list of your creditors and the outstanding fees incurred for each case. Begin accumulating some funds in order to pay the application fee. It may also be a good idea to look into your credit reference file and clarify you have shown all debts incurred.

The costing of a Debt Relief Order:

- Charge of £90 – your financial situation will not allow for reductions to be made
- A payment plan can be used in the form of installments.
- Seek assistance from a charity if the charge will be an issue.



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When should I start paying these installments?

Once the application process has been completed between yourself and your intermediary, you will receive a duplicate copy with which a unique bar code will be found. From this point on installments can be made only by cash, through the local Payzone or Post Office, for the £90 charge. Payzones are frequently located in newsagents, corner shops or petrol stations.

Is there a time period for the installments?

The Debt Relief Order rules states the payment must be completed, from when the online application began, within six months.

If I change my mind is there a refund?

This is only possible if you change your mind pre-submission of your application by your intermediary and you have made some payments towards the fee, but it has not been fully completed.

I have mistakenly left a debt out can it be included?

Once the Official Receiver has agreed the order, the debt can no longer be added. This will therefore allow your creditor to still hold you accountable for the debt and request payments towards it.

What happens if the extra debt moves the total figure to beyond £15000?

In this case, the Official Receiver is entitled to withdraw or retract your Debt Relief Order.

Is it a problem if the amount I owe is not accurate?

The figures you submit in your application are the ones that will go in the Debt Relief Order and so the figures need to be reliable. If there are mistakes between the debt you owe and the debt written in the order (even if this is interest charged), your creditor is entitled to request you pay the outstanding figure. This can often be the case in circumstances where there is a time lapse between you completing the application and the 'official receiver' approving it.

What does the Official Receiver do next?

The next step is whether you have your application approved or not. In some cases the official receiver may ask you for more details on your situation. If the information is enough, a credit reference agency will be consulted regarding your credit file and the information here is used to back up the information you have set out in the application.

How do I know if my application has been accepted?

You, along with your creditors will receive a letter verifying the acceptance of the Order.

Can the creditors raise objections to the Debt Relief Order?

Yes, they can object to the order as well as object to the information regarding the debt. The creditor cannot simply reject being part of it and can only raise an objection because they believe you are not applicable to receive it.

What occurs if the creditors cannot object and the Debt Relief Order is maintained?

- A Moratorium Period: all debts are suspended for the 12-month period.
- Payments to any of the debts should come to an end in most cases. (Rent arrears are the exception)
- The creditors can no longer request installments.

Do I need to communicate my entire financial situation with the Official Receiver?

You must co-operate with the Official Receiver fully and communicate the following:

- Any alterations in your circumstances after the application for the order.
- If the receiver asks for finance information, you must not withhold it.
- A reliable list of your total assets and debts.
- Any alterations to your income during the order.
- Any property you come into during the order.
- Any lump sum you come into during the order.

What are the Implications of a Debt Relief Order?

- Restraints will be implicated for a 12-month period from an approved order.
- You can be subject to a 'debt relief restrictions order'.
- The Order is documented on your credit reference file as well as on the Individual Insolvency Register.
- Bank accounts can be frozen.
- Potentially disrupt your employment or tenancy agreement, if your contract states the Order is not allowed.

What are the restraints of a Debt Relief Order?

- A Lender must be informed about your order if you are taking credit of over £500.
- You are prevented from promotion, management or formation of a limited company.
- You must get approval from the court before becoming a company director.
- You are required if running a business of a separate name, to inform those you do business with, the name attached to the Order.
- Certain positions in public office cannot be held.
- A Debt Relief Order can only be applied for every six years.

Are there implications if my integrity comes into question?

This comes down to the Official Receiver. If the receiver expects or discovers you have been dishonest about your financial situation pre or during the order, the receiver could request you agree to a 'debt relief restriction undertaking'.

What if I reject the 'debt relief restriction undertaking'?

In this instance, the receiver could request the court for a 'debt relief restriction order'. The order will place certain constraints on you for a timeframe of two to fifteen years post the debt relief order. In addition, information will be kept on the Individual Insolvency Register for the entire period of the order and a further three months after that.

Are there implications to my bank account?

In the case that your Debt Relief Order is approved, it is in the hands of your bank or building society to decide whether your accounts will be frozen or not. If you have any debts with the banks it is more than likely that they will freeze the appropriate accounts.

Can I open up a new bank account or building society?

Yes, the debt relief order does not prevent you from opening up any new accounts. The bank you wish to open up with upon hearing about the order, is entitled to decide whether or not to allow you to set up a new account. It may be a good idea to open up a basic bank account to steer clear of potential issues.

Are there any implications to my credit rating?

- Debt relief Orders will maintain with the credit reference agency for six years.
- Mortgage potential after six years could still be problematic.
- Lenders can ask if you have had a debt relief order or been declared bankrupt.

Is there a period of time before my Debt Relief Order will be withdrawn from the Individual Insolvency Register?

- There is a period of 15 months.
- Information will be stored and maintained for the period of which you have the debt relief order plus a further three months.

There are three alternatives to a Debt Relief Order?

- Bankruptcy
- Debt-Management Plan
- IVA